

REPORT OF EXAMINATION

SAFECO INSURANCE COMPANY OF AMERICA  
GENERAL INSURANCE COMPANY OF AMERICA  
FIRST NATIONAL INSURANCE COMPANY OF AMERICA  
SAFECO SURPLUS LINES INSURANCE COMPANY

Seattle, Washington

December 31, 1995

States Participating:

Delaware  
Ohio  
Washington

**SAFECO PROPERTY AND CASUALTY GROUP**

**CHIEF EXAMINER AFFIDAVIT**

I certify that I have reviewed the Report of the financial examination of SAFECO PROPERTY AND CASUALTY GROUP of Seattle, Washington as of December 31, 1995.

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Jacqueline L. Gardner, CFE, FLMI  
Chief Insurance Examiner

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Date

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Seattle, Washington  
April 2, 1997

The Honorable Glenn Pomeroy  
Chairman, NAIC Financial Condition(EX 4)  
Sub-Committee  
North Dakota Department of Insurance  
600 East Boulevard Avenue  
Bismarck, ND 58505-0320

The Honorable Elizabeth Costle  
NAIC Secretary, Northeastern Zone  
Vermont Department of Insurance  
Dept. of Banking, Insurance &  
Securities, 89 Main Street, Drawer 20  
Montpelier, VT 05620-3101

The Honorable James H. Brown  
NAIC Secretary, Southeastern Zone  
Louisiana Department of Insurance  
P.O. Box 94214  
Baton Rouge, LA 70804-9214

The Honorable Mark Boozell  
NAIC Secretary, Midwestern Zone  
Illinois Department of Insurance  
320 West Washington Street, 4th Flr  
Springfield, IL 62767

The Honorable Deborah Senn  
Insurance Commissioner  
State of Washington  
Insurance Building  
P. O. Box 40255  
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with statutory requirements, an Association examination has been made of the corporate affairs and financial condition of:

SAFECO INSURANCE COMPANY OF AMERICA  
GENERAL INSURANCE COMPANY OF AMERICA  
FIRST NATIONAL INSURANCE COMPANY OF AMERICA  
SAFECO SURPLUS LINES INSURANCE COMPANY  
of  
Seattle, Washington

and this report of examination is respectfully submitted showing the condition of the Companies as of December 31, 1995.

### **SCOPE OF EXAMINATION**

Insurance examiners from the states of Delaware, Ohio and Washington conducted an Association examination of SAFECO Property and Casualty Group, hereinafter referred to as the Companies. That examination covers the period from January 1, 1991 through December 31, 1995. The examiners also reviewed significant transactions and events that occurred subsequent to the date of the examination. The previous examination was conducted as of December 31, 1990 by examiners from the States of Georgia, Missouri, Oregon and Washington.

A full scope Association examination was made to assess the financial condition and corporate affairs of the Companies and to report any material, adverse findings. The examination was conducted in accordance with standards established by the National Association of Insurance Commissioners (NAIC) and statutes, rules and regulations of the state of Washington.

The examination was conducted concurrently with the Association examination of SAFECO Life Insurance Company and SAFECO National Life Insurance Company, affiliated companies domiciled in the state of Washington. In addition, Association examinations were made of SAFECO National Insurance Company, domiciled in the state of Missouri and SAFECO Insurance Company of Illinois, domiciled in the state of Illinois, by the respective domiciliary states.

Various aspects of the Companies' operating procedures and financial records were reviewed during the course of this examination as considered necessary. Asset valuations were verified and all known liabilities were substantiated. Comments and any adverse findings applicable to the examination are included in this report under the appropriate captions.

Work papers of the Companies' independent auditors were utilized where possible in the testing and verification of account balances.

### **INSTRUCTIONS AND RECOMMENDATIONS**

In the review of reinsurance recoverable on paid loss and LAE it was noted that the Company was not consistent with the line guidelines of the NAIC Annual Statement Instructions for Schedule F Part 3 Columns 3, 4 and 11. The paid loss, loss adjustment expenses, and ceded balance payable amount have premiums and losses netted with each other in their respective columns. The NAIC Annual Statement instructions call for the line to be grossly stated amounts rather than netted. It is recommended that the Company follow these instructions in future Annual Statements.

### **HISTORY AND CAPITALIZATION**

#### **SAFECO INSURANCE COMPANY OF AMERICA (SAFECO):**

The Company was incorporated under the laws of the state of Washington on September 2, 1953 and began active business on October 1, 1953. Paid up capital of \$5,000,000 consists of 20,000 shares of authorized and outstanding common shares at \$250 par value.

#### **GENERAL INSURANCE COMPANY OF AMERICA (GENERAL):**

The Company was incorporated under the laws of the state of Washington on March 20, 1923 and began active business on April 27, 1923. Paid up capital of \$5,000,000 consists of 20,000 shares of authorized and outstanding common shares at \$250 par value.

#### **FIRST NATIONAL INSURANCE COMPANY OF AMERICA (FIRST NATIONAL):**

The Company was incorporated under the laws of the state of Washington on October 5, 1928 and began active business on November 1, 1928. Paid up capital of \$5,000,000 consists of 20,000 shares of authorized and outstanding common shares at \$250 par value.

## **SAFECO SURPLUS LINES INSURANCE COMPANY (SAFECO SURPLUS):**

The Company was incorporated under the laws of the state of Washington on August 26, 1983 and began active business in January 1984. Paid up capital of \$4,100,000 consists of 25,000 authorized and 20,000 outstanding common shares at \$205 par value

### **MANAGEMENT AND CONTROL**

SAFECO Surplus' stock is 100% owned by SAFECO. SAFECO, GENERAL and FIRST NATIONAL's stock is 100% owned by SAFECO Corporation, a holding company incorporated under the laws of the state of Washington.

SAFECO Corporation, directly or indirectly, owns the stock of operating subsidiaries engaged in various phases of the insurance business and other financially related lines of business. The home offices of the Corporation and each of its principal subsidiaries are in Seattle, Washington, except for SAFECO Life and SAFECO National Life which have home offices in Redmond, Washington.

The Articles of Incorporation vest the management and control of the affairs of the Company in the Board of Directors which consists of not less than five nor more than thirty members. As of the examination date, there were nine board members. There were eight for SAFECO Surplus Lines.

Directors and Officers serving the Company as of December 31, 1995 were as follows:

<u>Directors</u>	<u>Business Association</u>	<u>Residence</u>
Donald S. Chapman, Sr.	Senior Vice President, SAFECO Property and Casualty Companies	Woodinville, WA
Boh A. Dickey	Executive Vice President and Chief Financial Officer, SAFECO Corporation	Woodinville, WA
Roger H. Eigsti	Chairman, and Chief Executive Officer, SAFECO Corporation	Bellevue, WA
Dan D. McLean*	President, SAFECO Property and Casualty Companies	Mill Creek, WA
Rodney A. Pierson	Senior Vice President, Secretary and Controller, SAFECO Corporation	Redmond, WA
James W. Ruddy	Senior Vice President and General Counsel, SAFECO Corporation	Mercer Island, WA
Ronald L. Spaulding	Vice President and Treasurer, SAFECO Corporation	Mill Creek, WA
Robert W. Swegle	Vice President, SAFECO Corporation	Bellevue, WA
Richard E. Zunker	President, SAFECO Life Insurance Companies	Woodinville, WA

\* Not a director for SAFECO Surplus Lines.

<u>Officers</u>	<u>Title</u>
Roger H. Eigsti,	Chairman
Dan D. McLean	President
Boh A. Dickey	Executive Vice President
Richard La Var Anderson	Senior Vice President**
Wayne T. Browne	Senior Vice President
Donald S. Chapman, Sr.	Senior Vice President
Rodney A. Pierson	Senior Vice President and Secretary
Philip A. Stephens***	Senior Vice President
William R. Stoddard	Senior Vice President
William E. Thomas	Senior Vice President
Stephen C. Bauer	Vice President and Treasurer
Alvin W. Dorow	Vice President
John A. Eckert****	Vice President
Stanley V. Hickin	Vice President
Wayne S. Jensen****	Vice President
David W. Kraft	Vice President
Michael C. Peters****	Vice President
Ronald L. Spaulding	Vice President

\*\* Retired 12/31/95, not Sr. V.P. for General, First National or SAFECO Surplus Lines.

\*\*\* Not a Sr. V.P. for SAFECO Surplus Lines

\*\*\*\* Not a V.P. for SAFECO Surplus Lines

## **CORPORATE RECORDS**

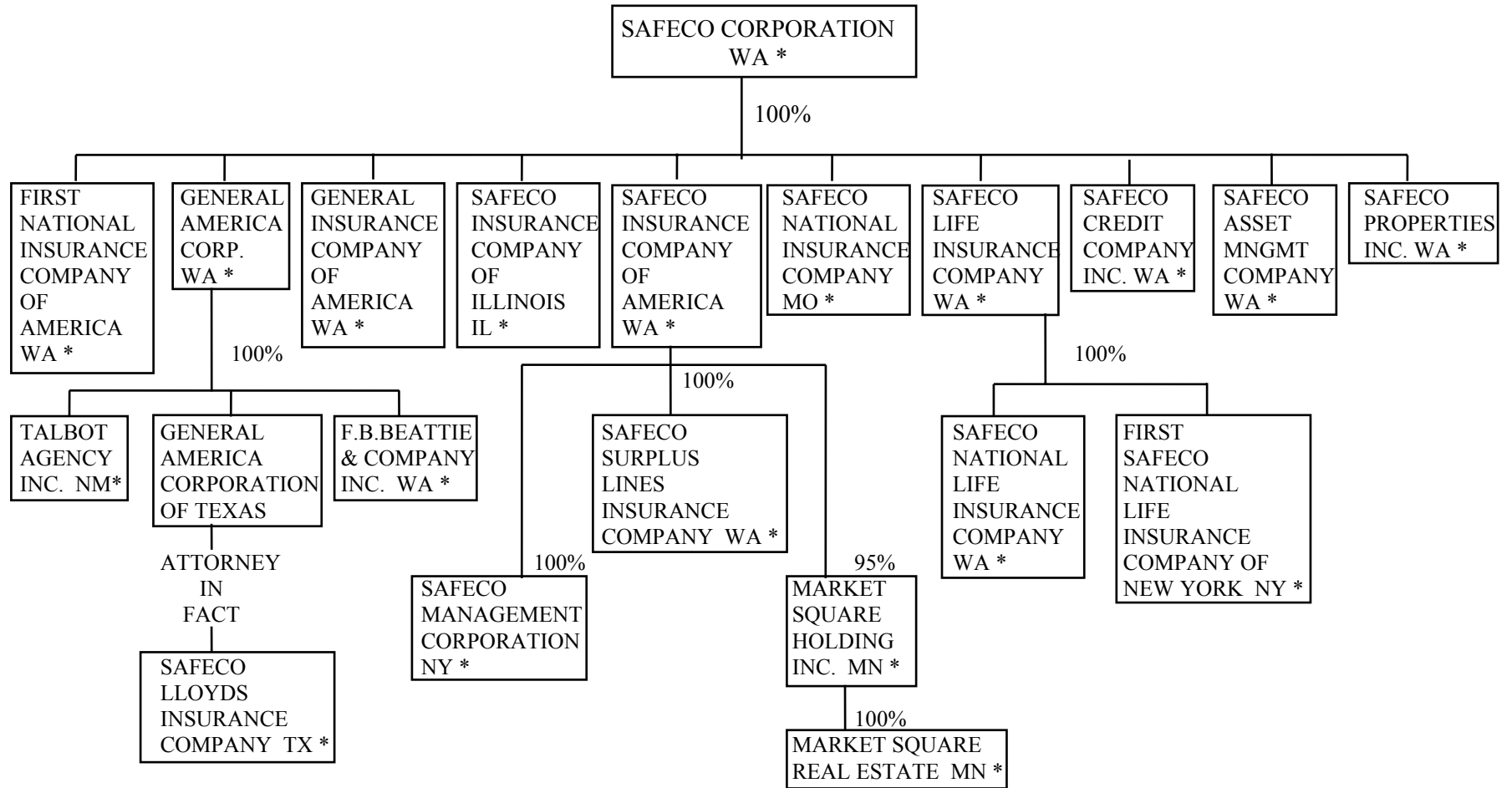
Minutes of the Board of Directors, Stockholders and Finance Committee meetings were reviewed for the period covered by this examination. Meetings were held as required and a quorum was present.

## **AFFILIATED COMPANIES**

As a member of a holding company system, holding company statements are required and have been filed on an annual or as required basis with the State of Washington Office of the Insurance Commissioner. The statements show the affiliates of the Companies and the ultimate controlling parent.

The following Organizational Chart displays the relationship of the Companies to its affiliates and ultimate parent:

# ORGANIZATIONAL CHART



\* State of Incorporation .



## **CONFLICT OF INTEREST**

The Companies have a procedure for disclosing possible conflicts of interest to the Board of Directors. This is set forth in the Companies' Policy on Ethical Standards, Conflicts of Interest and Compliance with the Law. The policy statement is circulated to all employees annually. The Companies also have a procedure for obtaining disclosure statements from new appointees during the interim.

## **FIDELITY BOND AND OTHER INSURANCE**

The Companies are a named insured on various insurance policies that provide protection against certain property and liability losses. Policies providing property coverage for buildings and contents, comprehensive commercial general liability and automotive bodily injury and property damage coverage were in effect during the period covered by the examination.

Fidelity insurance is extended to all affiliated companies through a Financial Institution Bond which provides coverage up to \$3,000,000 aggregate with no deductible. The Companies carry excess insurance which provides an additional amount of coverage in layers through several carriers. The minimum amount of fidelity insurance coverage recommended by the NAIC for a company the size of the combined Life and Property and Casualty groups is \$4,000,000 to \$4,500,000. The coverage provided in the excess layers exceeds the amount recommended in the NAIC Examiner's Handbook. In addition, the Companies carried Directors and Officers Liability and an Errors and Omissions policy.

## **TERRITORY AND PLAN OF OPERATION**

Management of the Companies within the SAFECO Property and Casualty Group is substantially the same. The Companies share services in the following areas: investment, claims, state filings, legal, data processing, personnel, statistical and accounting.

Sales operations of the Companies are conducted under an agency system composed of independent agents and brokers. At December 31, 1995, there were 8,954 active agencies for the property and casualty companies, life companies and surety. Agents generally report directly to the Companies through branch or regional offices.

There were thirteen regional/branch offices in operation at December 31, 1995 at the following locations:

<u>Regions (5)</u>	<u>Branches (8)</u>	
Redmond, WA	Portland, OR	Dallas, TX
Sunset Hills, MO	Spokane, WA	San Ramon, CA
Stone Mountain, GA	Cincinnati, OH	Los Angeles, CA
Lakewood, CO	Chicago, IL	Rochester, NY
Fountain Valley, CA		

The regional/branch offices are autonomous service offices reporting to the Home Office and offering sales, underwriting, and claim services. Regular internal audits of the regional/branch offices are conducted by teams of specialized individuals from other regional/branch offices and the Home Office internal audit staff to confirm uniformity and procedural compliance in each office.

In addition to the regional/branch offices, the Companies maintain claim service offices to facilitate the settlement of claims in local areas. The overall claim responsibilities are in each regional/branch office, however, the claim service offices generally have the authority to issue drafts in varying amounts by line.

Information regarding claims in excess of varying amounts by line is required to be submitted to the Home Office for review.

The Companies use salaried staff adjusters for the settlement of approximately 98% of its claims. Independent adjusters are engaged in localities not immediately serviced by Company personnel. Independent adjusters are also engaged in certain localities in the event of abnormal claim volume or shortage of company personnel.

#### **SAFECO INSURANCE COMPANY OF AMERICA:**

The Company is authorized to transact multiple lines business in the District of Columbia, all states of the United States, except Vermont, and is licensed for run-off only in the Dominion of Canada. In addition, the Company is authorized to write surety only in Guam. The Company is authorized by the United States Treasury Department to act as surety on bonds required by the Federal Government, and by the United States Department of Labor to write Workers' Compensation under the Longshore and Harbor Workers' Compensation Act and its extensions.

#### **GENERAL INSURANCE COMPANY OF AMERICA:**

The Company is authorized to transact multiple lines business in all states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and is licensed for run-off only in the Dominion of Canada. In addition, the Company is authorized to write surety only in Guam. The Company is authorized by the United States Treasury Department to act as surety on bonds required by the Federal Government, and by the United States Department of Labor to write Workers' Compensation under the Longshore and Harbor Workers' Compensation Act and its extensions.

#### **FIRST NATIONAL INSURANCE COMPANY OF AMERICA:**

The Company is authorized to transact multiple lines business in the District of Columbia, all states of the United States, except Maine and New Hampshire, and is licensed for run-off only in the Dominion of Canada. The Company is authorized by the United States Treasury Department to act as surety on bonds required by the Federal Government, and by the United States Department of Labor to write Workers' Compensation under the Longshore and Harbor Workers' Compensation Act and its extensions.

#### **SAFECO SURPLUS LINES INSURANCE COMPANY:**

The Company began writing excess and surplus lines business in 1984. It is admitted only in Washington and therefore can write excess and surplus lines business in all states but Washington, as business in this category can only be written with non-admitted companies. All business is then ceded to SAFECO as discussed in the reinsurance section under the intercompany pooling agreement.

Certificates of Authority authorizing each Company to transact business in the previously named jurisdictions were reviewed for the period under examination and were found to be in effect.

## **GROWTH OF COMPANY**

The growth of the Companies for the past five years is reflected in the following exhibit prepared from filed annual statements and as adjusted by this examination:

(000's Omitted)

### **SAFECO INSURANCE COMPANY OF AMERICA**

<u>Year</u>	<u>Assets</u>	<u>Reserves &amp; Liabilities</u>	<u>Unassigned Funds</u>	<u>Premiums</u>
1990	\$1,977,027	\$1,453,283	\$507,604	\$ 894,657
1991	2,122,271	1,536,216	569,915	863,746
1992	2,280,587	1,560,317	704,130	966,426
1993	2,433,701	1,637,715	779,846	1,060,087
1994	2,478,301	1,727,210	734,951	1,114,836
1995	2,681,505	1,759,142	906,224	1,169,701

### **GENERAL INSURANCE COMPANY OF AMERICA**

<u>Year</u>	<u>Assets</u>	<u>Reserves &amp; Liabilities</u>	<u>Unassigned Funds</u>	<u>Premiums</u>
1990	\$1,338,594	\$ 976,780	\$356,923	\$607,692
1991	1,431,217	989,317	437,009	586,696
1992	1,589,269	1,076,587	507,792	656,440
1993	1,642,194	1,084,789	552,514	720,059
1994	1,692,610	1,146,022	540,697	757,247
1995	1,843,978	1,151,001	687,086	794,514

### **FIRST NATIONAL INSURANCE COMPANY OF AMERICA**

<u>Year</u>	<u>Assets</u>	<u>Reserves &amp; Liabilities</u>	<u>Unassigned Funds</u>	<u>Premiums</u>
1990	\$147,015	\$107,278	\$34,154	\$67,521
1991	158,886	109,995	43,310	65,188
1992	178,674	120,515	52,577	72,938
1993	182,051	121,340	55,130	80,007
1994	188,394	128,601	54,211	84,139
1995	203,633	129,530	68,522	88,279

### **SAFECO SURPLUS LINES INSURANCE COMPANY**

<u>Year</u>	<u>Assets</u>	<u>Reserves &amp; Liabilities</u>	<u>Unassigned Funds</u>	<u>Premiums</u>
1990	\$12,035	\$250	\$3,635	\$0
1991	12,742	53	4,539	0
1992	16,220	56	5,515	0
1993	17,426	68	6,708	0
1994	18,387	33	7,704	0
1995	19,544	58	8,836	0

## REINSURANCE

### INTERCOMPANY POOLING AGREEMENT

The SAFECO Group of property and casualty companies; SAFECO Insurance Company of America (SAFECO), General Insurance Company of America, First National Insurance Company of America, SAFECO National Insurance Company, SAFECO Insurance Company of Illinois, SAFECO Surplus Lines Insurance Company and SAFECO Lloyds Insurance Company participate in an intercompany reinsurance agreement. The agreement provides that SAFECO will assume all insurance business of the affiliated property and casualty insurance companies. SAFECO arranges for all needed reinsurance with third parties. SAFECO then retrocedes the net retained business to the affiliates as follows: SAFECO retains 53%; General Insurance Company of America 36%; First National Insurance Company of America 4%; SAFECO National Insurance Company 2%; SAFECO Insurance Company of Illinois 5%.

SAFECO collects all premiums and pays all losses and expenses related to underwriting operations of the Group. The net premiums, losses and expenses are shared by the companies of the Group at the same percentage as its participation in the pooling agreement. Accounts are rendered by SAFECO at monthly intervals, or more frequently, and are settled within thirty days.

### CEDED

<u>Treaty Type</u>	<u>Line of Business</u>	<u>Coverage</u>
<b>Catastrophe:</b>		
Property	Personal and commercial property	90% of \$35 mil xs \$75 mil
	business losses, including auto	90% of \$40 mil xs \$110 mil
	incurred within a 72 hr. period from	90% of \$50 mil xs \$150 mil
	a weather related cause or 168 hrs.	90% of \$100 mil xs \$200 mil
	from an earthquake or freezing.	90% of \$75 mil xs \$300 mil
	Earthquake only (states of WA & OR)	90% of \$100 mil xs \$375 mil
<b>Commercial Lines:</b>		
Automatic	Commercial Property	From \$10 mil xs \$2 mil to \$55 mil
Facultative Property		xs \$20 mil based on limits and class.
Working Cover	Commercial property & workers' compensation excluding SSR & SSL business	From \$1 mil xs \$1 mil to \$10 mil xs \$10 mil for property depending on class. \$12 mil xs \$3 mil for workers' compensation
Workers' Compensation Excess	Commercial lines workers' compensation business only	100% of \$75 mil xs \$25 mil 100% of \$25 mil xs \$100 mil
Umbrella	Commercial umbrella policies	70% quota share for 1st \$1 mil 95% of \$4 mil xs \$1 mil 100% of \$5 mil xs \$5 mil
Umbrella - Facultative Binding	McDonald's National Account	95% of 1st \$5 mil 100% of \$20 mil xs \$5 mil

**Personal Lines:**

High Value Homes - Property	High-value homeowner's property: A+B+C+D limits +SPP greater than \$2 mil A+B+C+D limits +SPP greater than \$5 mil	\$3 mil xs \$2 mil Max \$9 mil any one occurrence  \$7 mil xs \$5 mil Max \$14 mil any one occurrence
Umbrella	Personal Umbrella policies	75% quota share for 1st \$1 mil 100% of \$4 mil xs \$1 mil 100% of \$5 mil xs \$5 mil

**Surety:**

Commercial - Excess of Loss	Commercial Surety bonds	\$15 mil xs \$5 mil after SAFECO's retention after the quota share.
Common Account Excess of Loss	Commercial and contract bonds excluding financial products	\$15 mil xs \$60 mil
Quota Share	Commercial and contract bonds excluding financial products	50% quota share. Max \$125 mil line of credit and \$35 mil per bond.
SBA	Contract surety bonds on small business for Small Business Admin	70% of paid loss, not to exceed \$1.25 mil per bond
Small Contractors Program	Bonds written and identified as small contractors	\$2.25 mil xs \$225,000

**Selects Markets:**

Professional Liability Excess of Loss	Professional Liability	\$4.5 mil xs \$500,000. Coverage for each profession depends on policy limits. Max limits range \$1 -\$5 mil
Aviation - Excess of Loss	Aviation hull and liability including chemical liability	\$1.5 mil xs \$1 mil \$2.5 mil xs \$2.5 mil
Property Quota Share	Surplus property lines written by F.B. Beattie	50% quota share. Max of \$25 mil per occurrence
Property Per Risk-Excess	Surplus property lines written by F.B. Beattie	\$3.5 mil xs \$1.5 mil, \$10.5 mil aggregate common account excess
Quota Share - Property & Casualty	Property & casualty lines produced by Black/White Agency through F.B. Beattie as part of a social services program	50% quota share for both property & liability. Max casualty limit of \$1mil
Environmental-Warranty	Property business classified as environmental site assessment insurance	86.5% of \$10 mil each risk, each loss and in the aggregate

**Assumed/Ceded**

<u>Treaty Type</u>	<u>Line of Business</u>	<u>Coverage</u>
Surety: Special Reinsurance and Hold Harmless	Surety bonds issued on behalf of individuals, proprietorships etc., normally doing business with the Reinsurer/Reinsured	100% on facultative basis by SAFECO and/or Aetna Casualty and Surety Co.

## ASSUMED

### **Pools and associations:**

Michigan Catastrophic Claims Association	Personal and commercial personal injury protection (PIP)	Unlimited PIP xs \$250,000
Workers' Comp Rein Assoc. of Minnesota	Commercial workers' compensation	Unlimited xs \$1.04 mil
Illinois Mine Subsidence	Personal and Commercial Property Required for all dwelling and homeowners policies in certain counties	100% up to \$350,000
Indiana Mine Subsidence	Personal and Commercial Property (Structures in certain counties)	100% up to \$75,000
Kentucky Mine Subsidence	Personal and Commercial Property (Structures in certain counties)	100% up to \$50,000
Ohio Mine Subsidence	Personal and Commercial Property (Structures in mandatory counties, some optional counties)	Coverage up to \$50,000 2% deductible
West Virginia Mine Subsidence	Personal and Commercial Property (Structures in certain counties)	100% up to \$75,000

### **FAIR Plans:**

SAFECO participates in FAIR Plans and other involuntary pools and associations established by state law or state insurance regulations. These facilities are under the supervision of state regulatory authorities and provide outlets to policyholders that cannot secure coverage through normal channels.

### **Syndicates/Pool:**

SAFECO participates on a limited percentage basis in retrocessional pools for the following underwriting syndicates and pools:

- American Hull Insurance Syndicate
- American Nuclear Insurers
- General Reinsurance Retrocession Pool

## **WELFARE AND PENSION PLANS**

All employees of the SAFECO Group are treated as employees of SAFECO Insurance Company of America. The salaries and benefits accruing to these employees are prorated to the various companies in the group on the basis of the pooling arrangement.

The Companies have the following benefit plans available to its officers, employees and their dependents: Group Life Insurance, Accidental Death and Dismemberment, Long-term Disability, Medical and Dental. The Companies contribute to the Life, Medical and Dental plans.

The Companies have several retirement and profit sharing plans:

- Profit Sharing Bonus - A cash bonus is paid to all salaried employees who have completed one calendar year of service. Each year 10% of the 'adjusted underwriting profit' of the SAFECO Group earned during the previous year is allocated to the profit sharing bonus plan. A cash bonus is then paid to all eligible employees based on a percentage of the previous year's base salary. Currently, an

employee with three or more calendar years of service may receive a maximum cash bonus of 10% of his or her previous year's salary.

- Profit Sharing Retirement Plan - A defined contribution plan established in 1943. Contributions are based on the SAFECO Group's profit, 5% of net profit, before taxes and stockholder's dividends and after subtracting an amount credited to the Cash Balance Plan. The maximum contribution to the trust shall not exceed 12 percent of eligible compensation paid each year to all participants.
- Cash Balance Plan - A defined benefit plan established in 1989. The plan provides an annual credit to each employee's account, regardless of profitability of the Group. The amount is 3% of eligible compensation paid each year to all participants. Participant's balances are credited with interest at a 5% rate.
- Employees' Savings Plan - A defined contribution plan established in 1967. It is available to an employee after 12 calendar months of service. An employee may save up to 6% of basic salary. The Companies contribute an amount equal to two-thirds of the employee's deduction.

SAFECO Corporation has a stock option plan for executives and key employees. The Stock issued is in SAFECO Corporation. In addition, two non-qualified benefit plans were established in 1989 for the Companies' contributions to the Profit Sharing Retirement Plan in excess of the amounts allowed by the Internal Revenue Code.

SAFECO Insurance Company of America also has a separate plan available to its independent agents and agencies. It is 100% funded by the agents and agencies and includes Group Life, Accidental Death and Dismemberment and Long-Term Disability.

### **SUBSEQUENT EVENTS**

The Companies added one region, Seattle, WA, and one branch, Phoenix, AZ during 1996. There were no events which would have a material effect on the financial condition of the companies under examination and there have not been any significant changes in company operations or personnel. No significant future changes are expected in the plan of operation. A letter affirming this was obtained from David Kraft, Vice President and Controller of the Companies.

### **ACCOUNTS AND RECORDS**

The Companies' general ledger is prepared electronically and supported by a variety of special purpose journals and transaction registers. The Companies' accounting journals and transaction records are prepared on-site via a shared mainframe EDP system.

The Companies' securities ledger is maintained by the Portfolio Accounting and Management System (PAM).

The review of internal control records, questionnaires and reports prepared by management and the internal auditors revealed that, overall, internal control policies and procedures appear to be adequate. The group has a fully functioning internal audit department. The Internal Audit department develops a five year plan and updates it annually to ensure that risk exposures are reviewed at appropriate intervals. There is an internal control unit which monitors the implementation of the internal audit recommendations.

The trial balance, which was prepared by the Companies, was traced to the various schedules and exhibits of the filed 1995 Annual Statement without exception. In addition to this test, other detailed tests were conducted on the postings of revenues, expense, asset and liability transactions. Reviews of revenue

included sample tests of receipts, deposits, identification of receipts sources, and postings to general ledger accounts. Underlying data matched receipts in the samples tested. Reviews of disbursements focused on checks and wire transfers. This review included an examination of original records and authorization of payments. Reviews of asset and liability transactions included tracing and vouching to detail transaction records and other original documentation.

The Companies are audited annually by an independent Certified Public Accounting firm and the work papers were used in the conduct of this examination to the extent possible.

### **FINANCIAL STATEMENTS**

The following financial statements showing the condition of each of the Companies as of December 31, 1995 are included in this report:

Comparative Balance Sheet

Comparative Summary of Operations and Comparative Reserves and Unassigned Funds Account

There were no examination adjustments.

Note: Failure of amounts to add to the total shown on the following financial statements is due to truncation or rounding.



# SAFECO INSURANCE COMPANY OF AMERICA

## COMPARATIVE BALANCE SHEET

<b>ASSETS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Bonds At NAIC Amortized Value	\$1,865,342,419	\$1,739,386,502	1
Stocks:			
Preferred Stocks	70,800,698	84,667,833	
Common Stocks at Association Market Value	452,814,005	335,025,169	
Mortgage Loans on Real Estate	0	0	
Real Estate:			
Properties Occupied by the Company	39,759,352	40,311,686	
Investment	1,745,383	273,383	
Collateral Loans	0	0	
Cash on Hand and on Deposit	(57,302,208)	(42,568,034)	
Short Term Investments	21,266,581	46,309,278	
Other Invested Assets	0	0	
Aggregate Write-ins for Invested Assets	<u>1,725,827</u>	<u>0</u>	
Subtotals, Cash and Invested Assets	\$2,396,152,057	\$2,203,405,817	
Agents' Balances or Uncollected Premiums:			
Balances in Course of Collection	24,758,343	26,449,563	
Balances Booked but Deferred & Not Yet Due	182,845,745	166,470,930	
Accrued Retrospective Premiums	0	0	
Funds Held by Reinsured Companies	0	0	
Bills Receivable, Taken for Premiums	0	0	
Reinsurance Recoverables on Loss & LAE Payments	9,882,356	13,135,211	
Federal Income Tax Recoverable	0	0	
Electronic Data Processing Equipment	8,411,263	10,636,774	
Interest, Dividends & Real Estate Income Due & Accrued	42,684,935	46,079,254	
Receivable from Parent, Subsidiaries and Affiliates	13,255,618	8,248,228	
Equities and Deposits in Pools and Associations	0	0	
Amounts Receivable Relating to Uninsured A&H Plans	0	0	
Aggregate Write-ins for Other Than Invested Assets	<u>3,515,018</u>	<u>3,875,204</u>	
Total Assets	\$2,681,505,334	\$2,478,300,981	

# SAFECO INSURANCE COMPANY OF AMERICA

## COMPARATIVE BALANCE SHEET

<b>LIABILITIES, SURPLUS &amp; OTHER FUNDS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Losses	\$874,265,525	\$881,485,950	2
Reinsurance Payable on Paid Losses	0	7,941	
Loss Adjustment Expenses	222,875,519	227,775,357	
Contingent Commissions and Other Similar Charges	28,611,163	24,789,283	
Other Expenses (Excluding Taxes, Licenses & Fees)	38,250,897	36,234,552	
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	5,592,482	5,016,972	
Federal and Foreign Income Taxes	13,974,162	21,819,818	
Borrowed Money	0	0	
Interest, including \$ on Borrowed Money	0	0	
Unearned Premiums	451,517,810	427,751,121	
Dividends Declared and Unpaid:			
Stockholders	18,000,000	16,000,000	
Policyholders	10,732,988	15,694,860	
Funds Held by Company under Reinsurance Treaties	1,121,547	2,487,172	
Amounts Withheld for Account of Others	6,019,456	7,165,142	
Provision for Reinsurance	6,707,030	16,168,597	
Excess of Statutory Reserves Over Statement Reserves	840,668	84,789	
Net Adjust in Assets & Liabilities Due to Foreign Exchange	19,529,468	25,888,700	
Drafts Outstanding	0	0	
Payable to Parent, Subsidiaries and Affiliates	2,196,868	2,505,824	
Payable for Securities	41,089,017	1,326,450	
Liability for Amounts Held Under Uninsured A&H Plans	0	0	
Aggregate Write-ins for Liabilities	17,816,989	15,007,912	
Total Liabilities	<u>\$1,759,141,589</u>	<u>\$1,727,210,440</u>	
Common Capital Stock	\$5,000,000	\$5,000,000	
Preferred Capital Stock	0	0	
Aggregate Write-ins for Other than Special Surplus Funds	0	0	
Gross Paid In and Contributed Surplus	11,139,941	11,139,941	
Unassigned Funds (Surplus)	<u>906,223,804</u>	<u>734,950,600</u>	
Surplus as Regards Policyholders	<u>\$922,363,745</u>	<u>\$751,090,541</u>	
Total Liabilities, Capital and Surplus	<u>\$2,681,505,334</u>	<u>\$2,478,300,981</u>	

**SAFECO INSURANCE COMPANY OF AMERICA**  
**COMPARATIVE INCOME STATEMENTS**

	<b>DECEMBER 31,</b>				
<b>STATEMENT OF INCOME</b>	<b>1995</b>	<b>1994</b>			
<b>UNDERWRITING INCOME</b>					
Premiums Earned	\$1,145,934,640	\$1,088,318,228			
<b>DEDUCTIONS</b>					
Losses Incurred	688,011,236	704,135,281			
Loss Expenses Incurred	121,286,043	105,740,097			
Other Underwriting Expenses Incurred	331,913,983	315,083,323			
Aggregate Write-ins for Underwriting Deductions	0	0			
Total Underwriting Deductions	<u>\$1,141,211,262</u>	<u>\$1,124,958,702</u>			
Net Underwriting Gain or (Loss)	\$4,723,378	(\$36,640,474)			
<b>INVESTMENT INCOME</b>					
Net Investment Income Earned	\$157,669,632	\$153,813,993			
Net Realized Capital Gains or (Losses)	<u>17,960,127</u>	<u>16,621,039</u>			
Net Investment Gain or (Loss)	\$175,629,759	\$170,435,032			
<b>OTHER INCOME</b>					
Net Gain (Loss) from Agents/ Premium Bal Charged Off	(900,725)	(\$811,929)			
Finance and Service Charges Not Included in Premiums	5,163,956	5,097,860			
Aggregate Write-ins for Miscellaneous Income	0	0			
Total Other Income	<u>\$4,263,231</u>	<u>\$4,285,930</u>			
Net Income Before Dividends to Policyholders & FIT	184,616,368	138,080,488			
Dividends to Policyholders	<u>8,076,498</u>	<u>12,102,550</u>			
Net Income After Policyholders Dividends Before FIT	176,539,870	125,977,938			
Federal and Foreign Income Taxes Incurred	<u>26,493,846</u>	<u>11,950,762</u>			
Net Income	\$150,046,024	\$114,027,176			
<b>CAPITAL AND SURPLUS ACCOUNT</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>	<b>1992</b>	<b>1991</b>
Surplus as Regards Policyholders, Dec 31 Prior Year	\$751,090,541	\$795,986,205	\$720,270,267	\$586,055,000	\$523,743,928
Net Income	150,046,024	114,027,176	149,324,088	\$104,559,965	\$78,577,255
Net Unrealized Capital Gains or (Losses)	104,276,793	(61,628,293)	10,986,316	25,375,912	57,076,460
Change in Non-Admitted Assets	(13,603,892)	(13,567,137)	(10,191,857)	(7,020,308)	(2,320,189)
Change in Provision for Reinsurance	9,461,567	5,247,767	4,437,709	36,026,046	(42,834,117)
Change in Foreign Exchange Adjustment	3,055,469	(10,890,388)	(916,572)	(10,216,663)	(1,940,958)
Change in Excess of Statutory over Statement Reserves	(755,879)	(84,789)	919,944	119,248	11,252,623
Capital Changes:					
Paid In	0				
Transferred from Surplus (Stock Divd)	0	2,500,000			
Transferred to Surplus	0				
Surplus Adjustments:					
Paid In	0				
Transferred to Capital (Stock Divd)	0	(2,500,000)			
Transferred from Capital	0				
Net Remittances from or (to) Home Office	0				
Dividends to Stockholders (cash)	(69,000,000)	(78,000,000)	(69,000,000)	(60,500,000)	(37,500,000)
Change in Treasury Stock	0				
Extraordinary Amounts of Taxes for Prior Years	(12,206,880)				
Aggregate Write-ins for Gains and Losses in Surplus	0		(9,843,690)	45,871,068	
Change in Surplus as Regards Policyholders for the Year	<u>\$171,273,203</u>	<u>(\$44,895,664)</u>	<u>\$75,715,938</u>	<u>\$134,215,267</u>	<u>\$62,311,072</u>
Surplus as Regards Policyholders, Dec 31 Current Year	\$922,363,745	\$751,090,541	\$795,986,205	\$720,270,267	\$586,055,000

**GENERAL INSURANCE COMPANY OF AMERICA**  
**COMPARATIVE BALANCE SHEET**

<b>ASSETS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Bonds At NAIC Amortized Value	\$1,208,927,655	\$1,175,106,384	1
Stocks:			
Preferred Stocks	48,725,622	71,162,771	
Common Stocks at Association Market Value	355,928,037	222,291,852	
Mortgage Loans on Real Estate	1,874,387	1,955,989	
Real Estate:			
Properties Occupied by the Company	18,902,453	18,157,695	
Investment	92,688	92,688	
Collateral Loans	0	0	
Cash on Hand and on Deposit	3,701,011	3,932,891	
Short Term Investments	32,738,590	31,869,031	
Other Invested Assets	0	0	
Aggregate Write-ins for Invested Assets	16,965	1,628,496	
Subtotals, Cash and Invested Assets	\$1,670,907,408	\$1,526,197,797	
Agents' Balances or Uncollected Premiums:			
Balances in Course of Collection	21,706,369	24,606,241	
Balances Booked but Deferred & Not Yet Due	124,197,110	113,074,595	
Accrued Retrospective Premiums	0	0	
Funds Held by Reinsured Companies	0	0	
Bills Receivable, Taken for Premiums	0	0	
Reinsurance Recoverables on Loss & LAE Payments	0	0	
Federal Income Tax Recoverable	0	0	
Electronic Data Processing Equipment	0	0	
Interest, Dividends & Real Estate Income Due & Accrued	26,799,817	28,175,475	
Receivable from Parent, Subsidiaries and Affiliates	2,807	0	
Equities and Deposits in Pools and Associations	0	0	
Amounts Receivable Relating to Uninsured A&H Plans	0	0	
Aggregate Write-ins for Other Than Invested Assets	364,942	556,328	
Total Assets	\$1,843,978,453	\$1,692,610,436	

**GENERAL INSURANCE COMPANY OF AMERICA**  
**COMPARATIVE BALANCE SHEET**

	DECEMBER 31,	
<b><u>LIABILITIES, SURPLUS &amp; OTHER FUNDS</u></b>	<b><u>1995</u></b>	<b><u>1994</u></b>
Losses	\$593,840,734	\$598,745,174
Reinsurance Payable on Paid Losses	0	0
Loss Adjustment Expenses	151,387,145	154,715,337
Contingent Commissions and Other Similar Charges	19,433,997	16,838,004
Other Expenses (Excluding Taxes, Licenses & Fees)	25,959,545	24,589,515
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	3,223,321	3,828,786
Federal and Foreign Income Taxes	7,976,185	6,979,079
Borrowed Money	0	0
Interest, including \$ on Borrowed Money	0	0
Unearned Premiums	306,691,342	290,547,931
Dividends Declared and Unpaid:		
Stockholders	10,000,000	12,000,000
Policyholders	7,290,332	10,660,660
Funds Held by Company under Reinsurance Treaties	0	0
Amounts Withheld for Account of Others	1,690,171	2,189,139
Provision for Reinsurance	0	0
Excess of Statutory Reserves Over Statement Reserves	571,020	57,593
Net Adjust in Assets & Liabilities Due to Foreign Exchange	8,508,553	13,989,531
Drafts Outstanding	0	0
Payable to Parent, Subsidiaries and Affiliates	6,030,142	2,422,420
Payable for Securities	0	613,920
Liability for Amounts Held Under Uninsured A&H Plans	0	0
Aggregate Write-ins for Liabilities	8,398,669	7,845,171
Total Liabilities	\$1,151,001,156	\$1,146,022,260
Aggregate Write-ins for Special Surplus Funds	\$0	\$0
Common Capital Stock	5,000,000	5,000,000
Preferred Capital Stock	0	0
Aggregate Write-ins for Other than Special Surplus Funds	0	0
Gross Paid In and Contributed Surplus	891,058	891,058
Unassigned Funds (Surplus)	687,086,239	540,697,118
Surplus as Regards Policyholders	\$692,977,297	\$546,588,176
Total Liabilities, Capital and Surplus	\$1,843,978,453	\$1,692,610,436

# GENERAL INSURANCE COMPANY OF AMERICA

## COMPARATIVE INCOME STATEMENTS

	DECEMBER 31,				
	1995	1994			
<b>STATEMENT OF INCOME</b>					
<b>UNDERWRITING INCOME</b>					
Premiums Earned	\$778,370,699	\$739,235,023			
<b>DEDUCTIONS</b>					
Losses Incurred	467,328,387	478,280,568			
Loss Expenses Incurred	82,382,973	71,823,463			
Other Underwriting Expenses Incurred	225,262,678	213,675,057			
Aggregate Write-ins for Underwriting Deductions	0	0			
Total Underwriting Deductions	\$774,974,038	\$763,779,087			
Net Underwriting Gain or (Loss)	\$3,396,661	(\$24,544,064)			
<b>INVESTMENT INCOME</b>					
Net Investment Income Earned	\$105,974,706	\$103,050,171			
Net Realized Capital Gains or (Losses)	28,602,700	10,660,853			
Net Investment Gain or (Loss)	\$134,577,406	\$113,711,024			
<b>OTHER INCOME</b>					
Net Gain (Loss) from Agents/ Premium Bal Charged Off	(611,813)	(\$551,499)			
Finance and Service Charges Not Included in Premiums	3,507,593	3,462,697			
Aggregate Write-ins for Miscellaneous Income	0	0			
Total Other Income	\$2,895,780	\$2,911,198			
Net Income Before Dividends to Policyholders & FIT	140,869,847	92,078,158			
Dividends to Policyholders	5,485,923	8,220,601			
Net Income After Policyholders Dividends Before FIT	135,383,924	83,857,557			
Federal and Foreign Income Taxes Incurred	22,822,007	8,133,972			
Net Income	\$112,561,917	\$75,723,585			
<b>CAPITAL AND SURPLUS ACCOUNT</b>					
	1995	1994	1993	1992	1991
Surplus as Regards Policyholders, Dec 31 Prior Year	\$546,588,176	\$557,404,782	\$512,682,627	\$441,900,066	\$361,813,863
Net Income	112,561,917	75,723,585	97,974,096	74,308,273	73,902,091
Net Unrealized Capital Gains or (Losses)	86,185,741	(23,198,979)	3,211,840	12,747,297	37,943,408
Change in Non-Admitted Assets	(372,277)	138,948	(486,215)	297,889	(505,130)
Change in Provision for Reinsurance	0	0	0	0	0
Change in Foreign Exchange Adjustment	1,650,945	(7,422,566)	(1,416,154)	(4,809,601)	(1,897,458)
Change in Excess of Statutory over Statement Reserves	(513,427)	(57,593)	624,868	80,998	7,643,291
Capital Changes:					
Paid In	0		0	0	0
Transferred from Surplus (Stock Divd)	0	2,500,000	0	0	0
Transferred to Surplus	0		0	0	0
Surplus Adjustments:					
Paid In	0		0	0	0
Transferred to Capital (Stock Divd)	0	(2,500,000)	0	0	0
Transferred from Capital	0		0	0	0
Net Remittances from or (to) Home Office	0		0	0	0
Dividends to Stockholders (cash)	(45,000,000)	(56,000,000)	(48,500,000)	(43,000,000)	(37,000,000)
Change in Treasury Stock	0		0	0	0
Extraordinary Amounts of Taxes for Prior Years	(8,123,778)		0	0	0
Aggregate Write-ins for Gains and Losses in Surplus	0		(6,686,280)	31,157,707	0
Change in Surplus as Regards Policyholders for the Year	\$146,389,121	(\$10,816,606)	\$44,722,155	\$70,782,561	\$80,086,203
Surplus as Regards Policyholders, Dec 31 Current Year	\$692,977,297	\$546,588,176	\$557,404,782	\$512,682,627	\$441,900,066

**FIRST NATIONAL INSURANCE COMPANY OF AMERICA  
COMPARATIVE BALANCE SHEET**

<b>ASSETS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Bonds At NAIC Amortized Value	\$146,751,519	\$136,059,336	1
Stocks:			
Preferred Stocks	842,306	1,699,006	
Common Stocks at Association Market Value	25,507,238	14,846,775	
Mortgage Loans on Real Estate	0	0	
Real Estate:			
Properties Occupied by the Company	4,214,868	4,002,245	
Investment	0	0	
Collateral Loans	0	0	
Cash on Hand and on Deposit	1,237,310	3,106,666	
Short Term Investments	3,751,910	7,051,359	
Other Invested Assets	0	0	
Aggregate Write-ins for Invested Assets	26,344	1,700,873	
Subtotals, Cash and Invested Assets	\$182,331,496	\$168,466,260	
Agents' Balances or Uncollected Premiums:			
Balances in Course of Collection	2,411,818	2,734,026	
Balances Booked but Deferred & Not Yet Due	13,799,679	12,563,846	
Accrued Retrospective Premiums	0	0	
Funds Held by Reinsured Companies	0	0	
Bills Receivable, Taken for Premiums	0	0	
Reinsurance Recoverables on Loss & LAE Payments	0	0	
Federal Income Tax Recoverable	0	0	
Electronic Data Processing Equipment	0	0	
Interest, Dividends & Real Estate Income Due & Accrued	3,431,710	3,470,931	
Receivable from Parent, Subsidiaries and Affiliates	0	433,327	
Equities and Deposits in Pools and Associations	0	0	
Amounts Receivable Relating to Uninsured A&H Plans	0	0	
Aggregate Write-ins for Other Than Invested Assets	1,658,734	725,910	
Total Assets	\$203,633,437	\$188,394,301	

**FIRST NATIONAL INSURANCE COMPANY OF AMERICA  
COMPARATIVE BALANCE SHEET**

<b>LIABILITIES, SURPLUS &amp; OTHER FUNDS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Losses	\$65,982,303	\$66,527,242	2
Reinsurance Payable on Paid Losses	0	0	
Loss Adjustment Expenses	16,820,794	17,190,593	
Contingent Commissions and Other Similar Charges	2,159,333	1,870,889	
Other Expenses (Excluding Taxes, Licenses & Fees)	2,887,544	2,735,441	
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	18,105	419,807	
Federal and Foreign Income Taxes	646,049	1,058,573	
Borrowed Money	0	0	
Interest, including \$ on Borrowed Money	0	0	
Unearned Premiums	34,076,816	32,283,103	
Dividends Declared and Unpaid:			
Stockholders	1,000,000	1,000,000	
Policyholders	810,037	1,184,518	
Funds Held by Company under Reinsurance Treaties	0	0	
Amounts Withheld for Account of Others	187,797	243,238	
Provision for Reinsurance	0	0	
Excess of Statutory Reserves Over Statement Reserves	63,447	6,399	
Net Adjust in Assets & Liabilities Due to Foreign Exchange	1,803,459	2,217,264	
Drafts Outstanding	0	0	
Payable to Parent, Subsidiaries and Affiliates	2,140,228	296,595	
Payable for Securities	0	439,976	
Liability for Amounts Held Under Uninsured A&H Plans	0	0	
Aggregate Write-ins for Liabilities	934,065	1,127,455	
Total Liabilities	\$129,529,977	\$128,601,093	
Aggregate Write-ins for Special Surplus Funds	\$0	\$0	
Common Capital Stock	5,000,000	5,000,000	
Preferred Capital Stock	0	0	
Aggregate Write-ins for Other than Special Surplus Funds	0	0	
Gross Paid In and Contributed Surplus	581,836	581,836	
Unassigned Funds (Surplus)	68,521,624	54,211,372	
Surplus as Regards Policyholders	\$74,103,460	\$59,793,208	
Total Liabilities, Capital and Surplus	\$203,633,437	\$188,394,301	



**FIRST NATIONAL INSURANCE COMPANY OF AMERICA  
COMPARATIVE INCOME STATEMENTS**

	DECEMBER 31,				
	1995				1994
STATEMENT OF INCOME					
UNDERWRITING INCOME					
Premiums Earned				\$86,485,633	\$82,137,225
DEDUCTIONS					
Losses Incurred				51,925,376	53,142,285
Loss Expenses Incurred				9,153,663	7,980,385
Other Underwriting Expenses Incurred				25,029,187	23,741,671
Aggregate Write-ins for Underwriting Deductions				0	
Total Underwriting Deductions				\$86,108,226	\$84,864,342
Net Underwriting Gain or (Loss)				\$377,407	(\$2,727,117)
INVESTMENT INCOME					
Net Investment Income Earned				\$11,770,407	\$11,180,558
Net Realized Capital Gains or (Losses)				3,217,610	475,619
Net Investment Gain or (Loss)				\$14,988,017	\$11,656,177
OTHER INCOME					
Net Gain (Loss) from Agents/ Premium Bal Charged Off				(67,979)	(\$61,278)
Finance and Service Charges Not Included in Premiums				389,733	384,744
Aggregate Write-ins for Miscellaneous Income				0	0
Total Other Income				\$321,753	\$323,466
Net Income Before Dividends to Policyholders & FIT				15,687,177	9,252,526
Dividends to Policyholders				609,547	913,401
Net Income After Policyholders Dividends Before FIT				15,077,630	8,339,125
Federal and Foreign Income Taxes Incurred				2,442,422	458,142
Net Income				\$12,635,208	\$7,880,983
CAPITAL AND SURPLUS ACCOUNT					
	1995	1994	1993	1992	1991
Surplus as Regards Policyholders, Dec 31 Prior Year	\$59,793,208	\$60,711,460	\$58,159,295	\$48,891,604	\$39,736,219
Net Income	12,635,208	7,880,983	11,574,277	14,201,816	5,732,693
Net Unrealized Capital Gains or (Losses)	6,541,571	(1,901,378)	483,485	(2,452,037)	4,841,523
Change in Non-Admitted Assets	(52,505)	30,958	(120,024)	330,914	(70,465)
Change in Provision for Reinsurance	0	0	0	0	0
Change in Foreign Exchange Adjustment	97,524	(922,415)	(212,082)	(783,969)	(197,621)
Change in Excess of Statutory over Statement Reserves	(57,048)	(6,399)	69,430	9,000	849,254
Capital Changes:					
Paid In	0	0	0	0	0
Transferred from Surplus (Stock Divd)	0	2,500,000	0	0	0
Transferred to Surplus	0	0	0	0	0
Surplus Adjustments:					
Paid In	0	0	0	0	0
Transferred to Capital (Stock Divd)	0	(2,500,000)	0	0	0
Transferred from Capital	0	0	0	0	0
Net Remittances from or (to) Home Office	0		0	0	0
Dividends to Stockholders (cash)	(4,000,000)	(6,000,000)	(8,500,000)	(5,500,000)	(2,000,000)
Change in Treasury Stock	0	0	0	0	0
Extraordinary Amounts of Taxes for Prior Years	(854,497)	0	0	0	0
Aggregate Write-ins for Gains and Losses in Surplus	0	0	(742,920)	3,461,967	0
Change in Surplus as Regards Policyholders for the Year	\$14,310,252	(\$918,252)	\$2,552,165	\$9,267,691	\$9,155,385
Surplus as Regards Policyholders, Dec 31 Current Year	\$74,103,460	\$59,793,208	\$60,711,460	\$58,159,295	\$48,891,604

**SAFECO SURPLUS LINES INSURANCE COMPANY**  
**COMPARATIVE BALANCE SHEET**

<b>ASSETS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Bonds At NAIC Amortized Value	\$17,913,197	\$17,895,605	1
Cash on Deposit	1,264,217	90,117	
Aggregate Write-ins for Invested Assets	4,453	0	
Subtotals, Cash and Invested Assets	\$19,181,867	\$17,985,722	
Interest, Dividends & Real Estate Income Due & Accrued	361,876	401,196	
Total Assets	\$19,543,743	\$18,386,918	

<b>LIABILITIES, SURPLUS &amp; OTHER FUNDS</b>	<b>DECEMBER 31,</b>		<b>NOTES</b>
	<b>1995</b>	<b>1994</b>	
Federal and Foreign Income Taxes	57,766	33,242	
Total Liabilities	\$57,766	\$33,242	
Common Capital Stock	4,100,000	4,100,000	
Gross Paid In and Contributed Surplus	6,550,000	6,550,000	
Unassigned Funds (Surplus)	8,835,977	7,703,676	
Surplus as Regards Policyholders	\$19,485,977	\$18,353,676	
Total Liabilities, Capital and Surplus	\$19,543,743	\$18,386,918	

**SAFECO SURPLUS LINES INSURANCE COMPANY  
COMPARATIVE INCOME STATEMENTS**

		DECEMBER 31,				
		1995	1994			
STATEMENT OF INCOME						
UNDERWRITING INCOME						
Premiums Earned		\$0	\$0			
DEDUCTIONS						
Losses Incurred		0	0			
Loss Expenses Incurred		0	0			
Other Underwriting Expenses Incurred		0	0			
Aggregate Write-ins for Underwriting Deductions		0	0			
Total Underwriting Deductions		\$0	\$0			
Net Underwriting Gain or (Loss)		\$0	\$0			
INVESTMENT INCOME						
Net Investment Income Earned		\$1,331,227	\$1,238,363			
Net Realized Capital Gains or (Losses)		41,769	(71,939)			
Net Investment Gain or (Loss)		\$1,372,996	\$1,166,424			
OTHER INCOME						
Net Gain (Loss) from Agents'/ Premium Bal Charged Off		\$0	\$0			
Finance and Service Charges Not Included in Premiums		0	0			
Aggregate Write-ins for Miscellaneous Income		0	0			
Total Other Income		\$0	\$0			
Net Income Before Dividends to Policyholders & FIT		1,372,996	1,166,424			
Dividends to Policyholders		0	0			
Net Income After Policyholders Dividends Before FIT		1,372,996	1,166,424			
Federal and Foreign Income Taxes Incurred		240,843	171,071			
Net Income		\$1,132,153	\$995,353			
CAPITAL AND SURPLUS ACCOUNT		1995	1994	1993	1992	1991
Surplus as Regards Policyholders, Dec 31 Prior Year		\$18,353,676	\$17,358,323	\$16,164,602	\$12,688,587	\$11,784,726
Net Income		1,132,153	995,353	1,193,719	976,013	903,862
Surplus Adjustments:						
Paid In		0			2,500,000	
Extraordinary Amounts of Taxes for Prior Years		148				
Aggregate Write-ins for Gains and Losses in Surplus		0				
Change in Surplus as Regards Policyholders for the Year		\$1,132,301	\$995,353	\$1,193,719	\$3,476,014	\$903,862
Surplus as Regards Policyholders, Dec 31 Current Year		\$19,485,977	\$18,353,676	\$17,358,323	\$16,164,602	\$12,688,587

## **NOTES TO FINANCIAL STATEMENTS**

### **1. ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with statutory accounting principles or with accounting practices prescribed or permitted by the State of Washington Office of the Insurance Commissioner.

***Investments:*** Investments in bonds are reported at amortized cost or market value based on their National Association of Insurance Commissioners (NAIC) rating. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. All of the Companies' fixed maturities were designated as available-for-sale under GAAP and are reported at fair value with unrealized holding gains and losses reported as a separate component of net worth.

Market value of certain investments in bonds and stocks are based on values specified by the NAIC. This may or may not be the same as actual or estimated market values. Real Estate owned and occupied by the Company is included in investments rather than reported as an operating asset.

***Nonadmitted Assets:*** Certain assets designated as "nonadmitted," principally furniture and equipment, are excluded from the accompanying statutory balance sheets and are charged directly to unassigned funds.

### **2. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

The reserves for the combined companies' unpaid losses and loss adjustment expenses were reviewed by the casualty actuarial staff of the Commissioner's Office. Actuarial staff selected several lines of business, comprising over 52% of the companies' gross loss reserves and 44% of the companies' gross allocated loss adjustment expense reserves, for detailed review. Company personnel provided loss and allocated loss adjustment expense data for these lines of business. Company personnel also provided additional information, including worksheets pertaining to the companies' methods of setting bulk and IBNR reserves. Actuarial staff also reviewed actuarial reports prepared by the companies' consulting actuarial firm, Ernst & Young.

The actuarial staff's estimates indicate that the companies' booked reserves for both losses and loss adjustment expenses for the selected lines of business are within a reasonable range. Actuarial staff also concluded that the companies' methods of establishing bulk and IBNR reserves, including reserves for unallocated loss adjustment expense, are reasonable. Therefore, the reserves carried by the companies for all lines of business are accepted as they appear on the companies' 1995 Annual Statements.

## **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Companies during the course of this examination and especially to Jim Schmidt and Dan Schaaf.

In addition, Laura A. Young, AFE, Examiner-in-Charge, Lisa Kelly; Leman McLean, CPA, CFE, FLMI; Martin Severeid, CIE; and Kevin Thomas, all from the Washington Insurance Commissioner's Office, Darryl Reese, CIE, CFE, State of Delaware, representing the NAIC Northeastern Zone, William A. Brooks, CFE, State of Ohio, representing the NAIC Midwestern Zone, participated in the examination and the preparation of this report.

The Actuarial review was done by Jim Antush, Actuarial Assistant and D. Lee Barclay, FCAS, MAAA; Property and Casualty Actuary for the Washington Insurance Commissioner's Office.

### **AFFIDAVIT OF EXAMINER IN CHARGE**

[illegible]

Laura A. Young, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of SAFECO Insurance Company of America, General Insurance Company of America, First National Insurance Company of America, and SAFECO Surplus Lines Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Laura A. Young, AFE  
Field Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997.

Notary Public in and for the  
State of Washington, residing  
at Seattle.